

INTRODUCTION

Legislative Basis for the INCSR

The Department of State's International Narcotics Control Strategy Report (INCSR) has been prepared in accordance with section 489 of the Foreign Assistance Act of 1961, as amended (the "FAA," 22 U.S.C. § 2291). The 2007 INCSR, published in March 2007, covers the year January 1 to December 31, 2006 and is published in two volumes, the second of which covers money laundering and financial crimes. It is the 24th annual report prepared pursuant to the FAA. The INCSR addresses the reporting requirements of section 489 of the FAA (as well as sections 481(d)(2) and 484(c) of the FAA and section 804 of the Narcotics Control Trade Act of 1974, as amended.

Section 706 of the FRAA requires that the President submit an annual report no later than September 15 identifying each country determined by the President to be a major drug-transit country or major illicit drug producing country. The President is also required in that report to identify any country on the majors list that has "failed demonstrably . . . to make substantial efforts" during the previous 12 months to adhere to international counternarcotics agreements and to take certain counternarcotics measures set forth in U.S. law. U.S. assistance under the current foreign operations appropriations act may not be provided to any country designated as having "failed demonstrably" unless the President determines that the provision of such assistance is vital to the U.S. national interests or that the country, at any time after the President's initial report to Congress, has made "substantial efforts" to comply with the counternarcotics conditions in the legislation. This prohibition does not affect humanitarian, counternarcotics, and certain other types of assistance that are authorized to be provided notwithstanding any other provision of law.

The FAA requires a report on the extent to which each country or entity that received assistance under chapter 8 of Part I of the Foreign Assistance Act in the past two fiscal years has "met the goals and objectives of the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances" (the "1988 UN Drug Convention"). FAA § 489(a)(1)(A).

This year, pursuant to The Combat Methamphetamine Enforcement Act (CMEA) (The USA Patriot Improvement and Reauthorization Act 2005, Title VII, P.L. 109-177), amending sections 489 and 490 of the Foreign Assistance Act (22 USC 2291h and 2291) section 722, the INCSR has been expanded to include reporting on the five countries that export the largest amounts of methamphetamine precursor chemicals, as well as the five countries importing these chemicals and which have the highest rate of diversion of the chemicals for methamphetamine production. The expanded reporting also includes additional information on efforts to control methamphetamine precursor chemicals: pseudoephedrine, ephedrine, and phenylpropanolamine, as well as an economic analysis that estimates legitimate demand for methamphetamine precursors, compared to actual or estimated imports. The CMEA also now requires a Presidential report by March 1, 2007, certifying which of the five countries that legally exported and the five countries that legally imported the largest amount of precursor chemicals (under FAA section 490) are "fully cooperating."

Although the Convention does not contain a list of goals and objectives, it does set forth a number of obligations that the parties agree to undertake. Generally speaking, it requires the parties to take legal measures to outlaw and punish all forms of illicit drug production, trafficking, and drug money laundering, to control chemicals that can be used to process illicit drugs, and to cooperate in international efforts to these ends. The statute lists action by foreign countries on the following issues as relevant to evaluating performance under the 1988 UN Drug Convention: illicit

cultivation, production, distribution, sale, transport and financing, and money laundering, asset seizure, extradition, mutual legal assistance, law enforcement and transit cooperation, precursor chemical control, and demand reduction.

In attempting to evaluate whether countries and certain entities are meeting the goals and objectives of the 1988 UN Drug Convention, the Department has used the best information it has available. The 2007 INCSR covers countries that range from major drug producing and drug-transit countries, where drug control is a critical element of national policy, to small countries or entities where drug issues or the capacity to deal with them are minimal. The reports vary in the extent of their coverage. For key drug-control countries, where considerable information is available, we have provided comprehensive reports. For some smaller countries or entities where only limited information is available, we have included whatever data the responsible post could provide.

The country chapters report upon actions taken - including plans, programs, and, where applicable, timetables - toward fulfillment of Convention obligations. Because the 1988 UN Drug Convention's subject matter is so broad and availability of information on elements related to performance under the Convention varies widely within and among countries, the Department's views on the extent to which a given country or entity is meeting the goals and objectives of the Convention are based on the overall response of the country or entity to those goals and objectives. Reports will often include discussion of foreign legal and regulatory structures. Although the Department strives to provide accurate information, this report should not be used as the basis for determining legal rights or obligations under U.S. or foreign law.

Some countries and other entities are not yet parties to the 1988 UN Drug Convention; some do not have status in the United Nations and cannot become parties. For such countries or entities, we have nonetheless considered actions taken by those countries or entities in areas covered by the Convention as well as plans (if any) for becoming parties and for bringing their legislation into conformity with the Convention's requirements. Other countries have taken reservations, declarations, or understandings to the 1988 UN Drug Convention or other relevant treaties; such reservations, declarations, or understandings are generally not detailed in this report. For some of the smallest countries or entities that have not been designated by the President as major illicit drug producing or major drug-transit countries, the Department has insufficient information to make a judgment as to whether the goals and objectives of the Convention are being met. Unless otherwise noted in the relevant country chapters, the Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) considers all countries and other entities with which the United States has bilateral narcotics agreements to be meeting the goals and objectives of those agreements.

Information concerning counternarcotics assistance is provided, pursuant to section 489(b) of the FAA, in section entitled "U.S. Government Assistance."

Major Illicit Drug Producing, Drug-Transit, Significant Source, Precursor Chemical, and Money Laundering Countries

Section 489(a)(3) of the FAA requires the INCSR to identify:

- (A) major illicit drug producing and major drug-transit countries;
- (B) major sources of precursor chemicals used in the production of illicit narcotics; or
- (C) major money laundering countries.

These countries are identified below.

Major Illicit Drug Producing and Major Drug-Transit Countries

A major illicit drug producing country is one in which:

- (A) 1,000 hectares or more of illicit opium poppy is cultivated or harvested during a year;
- (B) 1,000 hectares or more of illicit coca is cultivated or harvested during a year; or
- (C) 5,000 hectares or more of illicit cannabis is cultivated or harvested during a year, unless the President determines that such illicit cannabis production does not significantly affect the United States. FAA § 481(e)(2).

A major drug-transit country is one:

- (A) that is a significant direct source of illicit narcotic or psychotropic drugs or other controlled substances significantly affecting the United States; or
- (B) through which are transported such drugs or substances. FAA § 481(e)(5).

The following major illicit drug producing and/or drug-transit countries were identified and notified to Congress by the President on September 15, 2006, consistent with section 706(1) of the Foreign Relations Authorization Act, Fiscal Year 2003 (Public Law 107-228):

Afghanistan, The Bahamas, Bolivia, Brazil, Burma, Colombia, Dominican Republic, Ecuador, Guatemala, Haiti, India, Jamaica, Laos, Mexico, Nigeria, Pakistan, Panama, Paraguay, Peru, and Venezuela.

Of these 20 countries, **Burma** and **Venezuela** were designated by the President as having “failed demonstrably” during the previous 12 months to adhere to their obligations under international counternarcotics agreements and take the measures set forth in section 489(a)(1) of the FAA. The President also determined, however, in accordance with provisions of Section 706(3)(A) of the FRAA, that support for programs to aid Venezuela’s democratic institutions is vital to the national interests of the United States. The President’s report also singled Bolivia out for a special review by March 15, 2007, of its performance in completing certain counternarcotics benchmarks because of its policies that have allowed the expansion of coca cultivation and initially slowed the pace of eradication.

Major Precursor Chemical Source Countries

The following countries have been determined to be major sources of precursor or essential chemicals used in the production of illicit narcotics:

Argentina, Brazil, Canada, China, Germany, India, Mexico, the Netherlands, and the United States.

Information is provided pursuant to section 489 of the FAA in the section entitled "Chemical Controls."

Major Money-Laundering Countries

A major money laundering country is defined by statute as one "whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking." FAA § 481(e)(7). However, the complex nature of money laundering transactions today makes it difficult in many cases to distinguish the proceeds of narcotics trafficking from the proceeds of other serious crime. Moreover, financial institutions engaging in transactions involving significant amounts of proceeds of other serious crime are vulnerable to narcotics-related money laundering. This year’s list of major money laundering countries recognizes this relationship by including all countries and other jurisdictions, whose financial institutions engage in transactions

involving significant amounts of proceeds from all serious crime. The following countries/jurisdictions have been identified this year in this category:

Afghanistan, Antigua and Barbuda, Australia, Austria, Bahamas, Belize, Bosnia and Herzegovina, Brazil, Burma, Cambodia, Canada, Cayman Islands, China, Colombia, Costa Rica, Cyprus, Dominican Republic, France, Germany, Greece, Guatemala, Guernsey, Haiti, Hong Kong, India, Indonesia, Iran, Isle of Man, Israel, Italy, Japan, Jersey, Kenya, Latvia, Lebanon, Liechtenstein, Luxembourg, Macau, Mexico, Netherlands, Nigeria, Pakistan, Panama, Paraguay, Philippines, Russia, Singapore, Spain, St. Kitts and Nevis, Switzerland, Taiwan, Thailand, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States, Uruguay, and Venezuela.

Further information on these countries/entities and United States money laundering policies, as required by section 489 of the FAA, is set forth in Volume II of the INCSR in the section entitled "Money Laundering and Financial Crimes."

Presidential Determination

White House Press Release
Office of the Press Secretary
Washington, DC
September 15, 2006

Presidential Determination No. 2006-24

Pursuant to section 706(1) of the Foreign Relations Authorization Act, FY03 (Public Law 107-228) (FRAA), I hereby identify the following countries as major drug transit or major illicit drug producing countries: **Afghanistan, The Bahamas, Bolivia, Brazil, Burma, Colombia, Dominican Republic, Ecuador, Guatemala, Haiti, India, Jamaica, Laos, Mexico, Nigeria, Pakistan, Panama, Paraguay, Peru, and Venezuela.**

A country's presence on the Majors List is not necessarily an adverse reflection of its government's counternarcotics efforts or level of cooperation with the United States. Consistent with the statutory definition of a major drug transit or drug producing country set forth in section 481(e)(2) and (5) of the Foreign Assistance Act of 1961, as amended (FAA), one of the reasons that major drug transit or illicit drug producing countries are placed on the list is the combination of geographical, commercial, and economic factors that allow drugs to transit or be produced despite the concerned government's most assiduous enforcement measures.

Pursuant to Section 706(2)(A) of the FRAA, I hereby designate Burma and Venezuela as countries that have failed demonstrably during the previous 12 months to adhere to their obligations under international counternarcotics agreements and take the measures set forth in section 489(a)(1) of the FAA. Attached to this report (Tab A) are justifications for the determinations on Burma and Venezuela, as required by section 706(2)(B).

I have also determined, in accordance with provisions of Section 706(3)(A) of the FRAA, that support for programs to aid Venezuela's democratic institutions is vital to the national interests of the United States.

Although President Karzai has strongly attacked narcotics trafficking as the greatest threat to Afghanistan, one third of the Afghan economy remains opium-based, which contributes to widespread public corruption. The government at all levels must be held accountable to deter and eradicate poppy cultivation; remove and prosecute corrupt officials; and investigate, prosecute, or extradite narcotics traffickers and those financing their activities. We are concerned that failure to act decisively now could undermine security, compromise democratic legitimacy, and imperil international support for vital assistance.

We are concerned with the decline in Bolivian counternarcotics cooperation since October 2005. Bolivia, the world's third largest producer of cocaine, has undertaken policies that have allowed the expansion of coca cultivation and slowed the pace of eradication until mid-year, when it picked up.

The Government of Bolivia's (GOB) policy of "zero cocaine, but not zero coca" has focused primarily on interdiction, to the near exclusion of its necessary complements, eradication and alternative development. However, the GOB has been supportive of interdiction initiatives and has had positive results in seizing cocaine and decommissioning rustic labs. We would encourage the GOB to refocus its efforts on eliminating excess coca, the source of cocaine. This would include eradicating at least 5,000 hectares, including in the Chapare region; eliminating the "cato" exemption to Bolivian law; rescinding Ministerial Resolution 112, Administrative Resolution 083, and establishing tight controls on the sale of licit coca leaf for traditional use; and implementing strong precursor chemical control measures to prevent conversion of coca to cocaine. We plan to review Bolivia's performance in these specific areas within 6 months.

The Government of Canada (GOC) continued to effectively curb the diversion of precursor chemicals that are required for methamphetamine production to feed U.S. illegal markets. The GOC also continued to seize laboratories that produce MDMA/Ecstasy consumed in both Canada and the United States. The principal drug concern was the continuing large-scale production of high-potency, indoor-grown marijuana for export to the United States. The United States enjoyed excellent cooperation with Canada across a broad range of law enforcement issues and shared goals.

The Government of Ecuador (GOE) has made considerable progress in combating narcotics trafficking destined for the United States. However, a dramatic increase in the quantity of cocaine transported toward the United States using Ecuadorian-flagged ships and indications of increased illegal armed group activity along Ecuador's northern border with Colombia remain areas of serious concern. Effective cooperation and streamlined maritime operational procedures between the U.S. Coast Guard and Ecuadorian Navy are resulting in an increase in the amount of cocaine interdicted. Building on that cooperation, we will work with Ecuador to change the circumstances that make Ecuadorian-flagged vessels and Ecuadorian citizenship so attractive to drug traffickers.

As a result of the elections in Haiti, the new government now has a clear mandate from the Haitian people to bring crime, violent gangs, and drug trafficking under control. We urge the new government to strengthen and accelerate ongoing efforts to rebuild and reform Haiti's law enforcement and judicial institutions and to consult closely with the United States to define achievable and verifiable steps to accomplish these goals.

While Nigeria continues to take substantive steps to curb official corruption, it remains a major challenge in Nigeria. We strongly encourage the government to continue to adequately fund and support the anti-corruption bodies that have been established there in order to fully address Nigeria's ongoing fight against corruption. We urge Nigeria to continue improving the effectiveness of the National Drug and Law Enforcement Agency and, in particular, improve enforcement operations at major airports/seaports and against major drug kingpins, to include targeting their financial assets. We look forward to working with Nigerian officials to increase extraditions and assisting in drug enforcement operations.

Although there have not been any drug seizures or apprehensions of drug traffickers with a connection to the Democratic People's Republic of Korea (DPRK) since 2004, we remain concerned about DPRK state-directed criminal activity. The United States Government has made clear to the DPRK that an end to all involvement in criminal activity is a necessary prerequisite to entry in the international community.

Under provisions of the Combat Methamphetamine Epidemic Act (CMEA), which modified Section 489(a) of the Foreign Assistance Act of 1961, as amended, and Section 490(a) of the FAA, a report will be made to the Congress on March 1, 2007, naming the five countries that legally exported the largest amount of methamphetamine precursor chemicals, as well as the top five methamphetamine precursor importers with the highest rate of diversion for illicit drug production. This report will be sent concurrently with the International Narcotics Control Strategy Report, which will also contain additional reporting on methamphetamine precursor chemicals pursuant to the CMEA.

You are hereby authorized and directed to submit this report under Section 706 of the FRAA, transmit it to the Congress, and publish it in the Federal Register.

GEORGE W. BUSH

MEMORANDUM OF JUSTIFICATION FOR PRESIDENTIAL DETERMINATION ON MAJOR DRUG TRANSIT OR ILLICIT DRUG PRODUCING COUNTRIES FOR FY 2007

Venezuela

Venezuela failed demonstrably to make sufficient efforts during the last 12 months to meet its obligations under international counternarcotics agreements and U.S. domestic counternarcotics requirements as set forth in section 489(a)(1) of the Foreign Assistance Act of 1961, as amended.

This determination comes as the result of Venezuela's lack of effective response to specific United States Government requests for counternarcotics cooperation as well as the country's continued lack of action against drug trafficking within and through its borders commensurate with its responsibilities to the international community.

Venezuela's importance as a transshipment point for drugs bound for the United States and Europe has continued to increase in the past 12 months, a situation both enabled and exploited by corrupt Venezuelan officials. The Venezuelan media provided an example of this corruption when they reported that Venezuelan police re-sold the vast majority of a 9,400 kg cocaine seizure to drug traffickers in July of this year (Venezuela does not allow independent verification of seizure amounts). Seizures of illegal drugs transiting the country have fallen, according to DEA estimates. The volume of cocaine transiting the country is expected to continue to rise substantially in 2006. The most dramatic increase in cocaine departing Venezuela was to non-U.S. destinations, primarily Europe. The vast majority of cocaine going to the United States or Europe goes by sea. However, an increasing proportion is being moved by non-commercial air through the Caribbean toward the United States. The number of suspected drug flights departing Venezuela and going to Hispaniola and the Caribbean more than doubled in 2005 and has continued that rising trend in the first half of 2006.

Venezuela has not used available tools to counter the growing drug threat. It has not strengthened inspections or security along its border with Colombia; it has not utilized judicial wiretap orders to investigate drug cases; it has not attempted meaningful prosecution of corrupt officials; and it has not renewed formal counternarcotics cooperation agreements with the United States Government.

The role and status of the DEA in Venezuela remains in limbo since the host country refuses to sign a memorandum of understanding authorizing Drug Enforcement Administration presence, even after successfully concluding a lengthy process of negotiation with U.S. officials. Venezuela also has not signed a letter of agreement that would make nearly \$3 million from FY 2005 available for United States Government cooperative counternarcotics efforts.

Last year Venezuela was found to have “failed demonstrably” as a partner in the war on drugs, in part because it ended most air interdiction cooperation, refused to grant U.S. counternarcotics over flights of Venezuela, curtailed most military and law enforcement counternarcotics cooperation, replaced its most effective counternarcotics officials, and failed to effectively implement its own money laundering and organized crime legislation. All of these issues remain outstanding in 2006.

The United States is very concerned about the continued deterioration of democratic institutions in Venezuela as reflected in the increased executive control over the other branches of government, threats to judicial independence and human rights, and attacks on press freedoms and freedom of expression.

A vital national interests certification will allow the United States Government to provide funds that support programs to aid Venezuela’s democratic institutions, establish selected community development projects, and strengthen Venezuela’s political party system.

MEMORANDUM OF JUSTIFICATION FOR PRESIDENTIAL DETERMINATION ON MAJOR DRUG TRANSIT OR ILLICIT DRUG PRODUCING COUNTRIES FOR FY 2007

Burma

Burma failed demonstrably to make sufficient efforts during the last 12 months to meet its obligations under international counternarcotics agreements and U.S. domestic counternarcotics requirements as set forth in section 489(a)(1) of the Foreign Assistance Act of 1961, as amended.

Burma remains the world’s second largest producer of illicit opium. Burmese opiates continue to pose a threat in Asia. Additionally, amphetamine-type stimulants (ATS) produced and trafficked from Burmese territory continue to threaten the entire region. Burma has not taken decisive action against drug gangs, such as the United Wa State Army (UWSA), which continue to operate freely along Burma’s borders with China and Thailand. These criminal organizations increasingly threaten Asia with the crystalline form of methamphetamine called “Ice”.

The efforts of the Government of Burma (GOB) to combat the production and trafficking of methamphetamine have been unsatisfactory. Even as methamphetamine production and trafficking have increased in recent years, seizures continue to be disappointing, and the GOB has not been forthcoming with verifiable statistics. It failed to establish a mechanism for the reliable measurement of ATS production and, once again, did not cooperate in the joint United States/Burma crop survey.

The GOB continued to take no action in response to the indictments in January 2005 by the U.S. Justice Department against eight leaders of the UWSA. The failure to take action against these

accused ringleaders, responsible for a good deal of human misery in Asia and beyond, demonstrates the Burmese Government's failure to take serious action against drug activity on its territory.

The Government of Burma has failed to indict and prosecute any Burmese military official above the rank of colonel for drug-related corruption.

Burma has failed to expand demand-reduction, prevention, and drug-treatment programs to reduce drug use and control the spread of HIV/AIDS. The Global Fund for Aids, TB and Malaria had approved grants totaling \$98.5 million for Burma but withdrew in late 2005 due to the government's onerous restrictions and lack of full cooperation.

The international Financial Action Task Force (FATF) continues to list Burma as one of only two "Non-cooperative Countries." At the heart of Burma's problems with international financial authorities is its weak implementation of anti-money laundering controls, with the result that narcotics traffickers and other criminal elements are still able to launder the proceeds of their crimes through Burmese financial institutions.

While the picture of Burma's counternarcotics efforts remains overwhelmingly negative, there were some positive aspects. The GOB, with the U.S. Drug Enforcement Administration and the Australian Federal Police, disrupted two international trafficking syndicates that are associated with the United Wa State Army (UWSA), a kingpin organization, and have ties throughout Asia, India, and North America. In September 2005, the GOB seized a UWSA-related shipment of approximately 496 kg of heroin bound for China via Laos. The seizure led to the arrest of 80 suspects, including two of UWSA Chairman Bao Yu Xiang's family members, and the seizure of assets, including \$1.3 million in cash. A second, related investigation from December 2005 through April 2006 culminated in the arrest of 30 subjects and the seizure of \$2.2 million in assets and significant quantities of morphine base, heroin, opium, weapons, methamphetamine tablets and powder, crystal methamphetamine, pill presses, and precursor chemicals.

Released on September 18, 2006

